

Internal Revenue Service  
District Director

Department of the Treasury  
P.O. Box 2508 - EP/EO  
Cincinnati, OH 45201

Date: JUN 17 1999

Employer Identification  
Number:

Person to Contact:

Telephone Number:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(7) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth in Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on form 1041 if you are a trust or form 1120 if you are a corporation or an unincorporated association.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the Office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.



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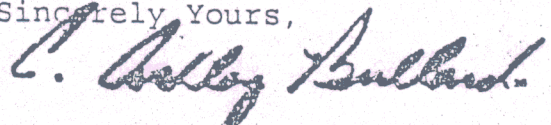
If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides in part that:

A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within the time specified, this will become our final determination. In that event, appropriate State Officials will be notified of this action in accordance with the provisions of section 6104(c) of the Code.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely Yours,



C. Ashley Bullard  
District Director

Enclosures: 3



Enclosure I  
Reasons for Adverse Action

[REDACTED] was incorporated under the laws of [REDACTED]

The Articles of Incorporation provide that the purposes of the organization are to promote and maintain a high degree of sound management in the policies and operation of social fraternities at [REDACTED] through: a. Employing an appropriate professional staff which will maintain a business office and act in an advisory capacity to fraternities in general and stewards, treasurers and house managers in particular. b. Providing facilities and personnel through which the fraternities can purchase such commodities as: food, fuel, supplies, furniture, equipment, and other services in order to secure the benefits accruing from such cooperative action. c. Providing other such services as will benefit the fraternity system at [REDACTED]. d. Providing and implementing such required services as fire and sanitation inspections, house improvement and general maintenance, as will benefit the fraternity system at [REDACTED].

The Bylaws provide that the purposes of the organization are as follows: a. The association is a club organized for pleasure and other nonprofitable purposes. b. The association brings to a cooperative project, persons from all fraternities and sororities together who have a responsibility for fraternity/sorority management. By their camaraderie with alumni who have experience and a continuing interest in the performance of the Greek system, members of the association will provide a mechanism for the Greek system to bring uniformity and stability to its financial operations through the association's training and monitoring functions. c. The purpose of the association is to enable the members to become more aware of the various aspects of the financial environment as well as prepare and educate them in prudent financial management resources for which they are responsible. The association makes available to the members the skills and services needed by the member in managing the affairs of a fraternity and sorority.

The membership of your association is composed of the treasurers of each participating fraternity/sorority on [REDACTED], the [REDACTED] members selected from the [REDACTED], and the [REDACTED]



[REDACTED]  
[REDACTED]

Your application indicates that from your incorporation date in [REDACTED] until [REDACTED], you were involved in financial management of the fraternities and sororities on [REDACTED]. The services provided to members included mass/cooperative purchasing, kitchen management including food preparation services, fiscal management etc. The association owned a warehouse which was used to store supplies purchased on a cooperative basis awaiting distribution to fraternity and sorority houses. The unused portion of the warehouse is being leased to two unrelated entities.

Correspondence dated [REDACTED], indicates that your organization has discontinued various services previously provided to members including mass purchasing, and direct operation of the dining operation of a house. In addition, you are proposing to sell the warehouse formerly used to store goods purchased through cooperative buying agreements. The activities currently conducted by the organization include fiscal management of the fraternities, membership interaction, and contractual agreements with preferred vendors. The fiscal management activities consist of basically managing the funds of some of the fraternity houses for a fee. Membership interaction consists of mandatory meetings where business and social activities are conducted. The contractual agreements with preferred vendors are standard agreements on price and other conditions made available to all fraternities and sororities on campus by negotiations made by the organization.

During the period [REDACTED], through [REDACTED], the organization has derived income from the following sources, sales and services to fraternities and other groups, fines, management and service fees, kitchen management fees, participation fees, miscellaneous, real estate rentals. The primary sources of income received during this period were from sales and services to fraternities and other groups, management service fees, kitchen management fees, and participation fees.

Currently, the organization's sources of support include participation fees, fines, management service fees, and miscellaneous income. The primary source of income is from participation fees and management services fees.

During the period [REDACTED], through [REDACTED], the expenses of your organization include the cost of sales and services provided to [REDACTED] and other groups, banquet and retreat expenses, contribution expense, kitchen management expenses, computer expenses, insurance expense, depreciation expense, interest expense, staff-related expenses, real estate



expenses, administrative expenses, travel and entertainment expenses, and professional fee expenses. Your primary expenses consist of the cost of sales and services provided to Fraternities and other groups and kitchen management expenses.

Currently, your organization's expenses include retreat expenses, computer expenses, depreciation expenses, insurance expenses, miscellaneous expenses, administrative expenses, office expenses, staff-related expenses, and travel and entertainment expenses. Your primary expenses are composed of staff-related expenses.

Section 501(c)(7) of the Code provides for the exemption from Federal income tax of clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder.

Section 501(c)(4) of the Internal Revenue Code of 1986 provides for the exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare, or local associations of employees, the membership of which is limited to the employees of a designated person or persons in a particular municipality, and the net earnings of which are devoted exclusively to charitable, educational, or recreational purposes. Section 501(c)(4) of the Code provides, in part, for the exemption from Federal income tax of civic leagues or organizations not organized for profit but operated exclusively for the promotion of social welfare.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations states that the exemption provided by section 501(a) of the Code for an organization described in section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inure to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

Section 1.501(c)(7)-1(b) of the Income Tax Regulations states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation and other



nonprofitable purposes, and is not exempt under section 501(a) of the Code. Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption. As previously noted, section 501(c)(7) of the Code requires that substantially all of a social club's activities be social or recreational activities for members. However, Public Law 94-568, 1976-2 C.B. 596, provides that a social club may receive up to 35 percent of its gross receipts, including investment income from sources outside its membership without losing exemption. Within this 35 percent amount, not more than 15 percent of the gross receipts should be derived from the use of a social club's facilities or services by the general public. This means that an exempt social club may receive up to 35 percent of its gross receipts from a combination of investment income and receipts from nonmembers so long as the latter do not represent more than 15 percent of the total receipts.

Section 1.501(c)(4)-1(a)(2)(i) of the Income Tax Regulations states that an organization is operated exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community. An organization embraced within this section is one which is operated primarily for the purpose of bringing about civic betterment and social improvements.

In Chattanooga Automobile Club v. Commissioner, Warren Automobile Club, Inc. v. Commissioner, 182 F. 2d 551 (6th Cir. 1950), the United States Court of Appeals 6th Circuit held that to be exempt under the Act of Congress, a club must have been organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes. The court further specified that the words "other nonprofitable purposes" must be construed as coming within the same classification as pleasure and recreation. In addition, there must be at least some sort of commingling of members to constitute a club. The court held that the two automobile clubs petitioning the court were not exempt under section 101(9) of the Internal Revenue Code of 1939 as a social club because the members of these clubs did not commingle. In addition, the court ruled that these organizations were not exempt under section 101(8) of the Internal Revenue Code of 1939 as a civic league because they were not operated exclusively to promote social welfare.

In Keystone Automobile Club v. Commissioner, 181 F. 2d 402 (3rd



(Cir. 1950), the U.S. Court of Appeals 3rd Circuit the court defined the word club to include some type of mingling of people together as well as a common object. In this case, the court held that the Keystone Automobile Club was not exempt under section 501(c)(9) of the Code for a number of reasons one of which was because they saw no evidence of the commingling of members.

Rev. Rul. 66-360, 1966-2 C.B. 228 held that a national sorority and its member chapters which were founded by a business corporation as a nonprofit organization for the purpose of forming chapters for the study and mutual pursuit of culture and for friendly social contact were neither tax exempt under section 501(c)(7) nor section 501(c)(4) of the Code. The sorority described in this ruling received all supplies and general management, clerical, and administrative services from the business corporation. In consideration for these services, the sorority turned over to the corporation all initiation and annual fees payable to it by the members of its chapters for the privilege of obtaining and continuing membership in the national sorority. The organization did not meet the requirements for tax exemption under section 501(c)(7) or 501(c)(4) because they were not organized or operated by members exclusively for pleasure, recreation, and other nonprofitable purposes or for the promotion of social welfare.

Rev. Rul. 70-32, 1970-1 C.B. 132 held that a flying club providing economical flying facilities for its members but having no organized social and recreational program does not qualify for exemption under section 501(c)(7) of the Code. The sole activity of the organization described in this ruling was to own, operate and maintain aircraft for use by the members. The organization was denied exemption under section 501(c)(7) because the sole activity of the organization was rendering flying services to its members and there was no significant commingling of its members.

Rev. Rul. 69-635, 1969-2 C.B. 126 held that an automobile club whose principal activity is rendering automobile services to its members but has no significant social activities does not qualify for exemption under section 501(c)(7) of the Code. The ruling further states that in order to qualify for exemption under section 501(c)(7), a commingling of members must play a material part in the activities of the organization. In this case, because the principal activity of the organization was rendering automobile services to its members and there was no significant commingling of its members, this organization does not qualify for exemption from Federal income tax under section 501(c)(7).

Rev. Rul. 58-589, 1958-2 C.B. 266 provides criteria or tests for



[REDACTED]

determining whether an organization qualifies for exemption from Federal income tax under section 501(a) of the Internal Revenue Code of 1954 as an organization described in section 501(c)(7) of the Code. The ruling states that an organization must establish (1) that it is a club both organized and operated exclusively for pleasure, recreation and other nonprofitable purposes and (2) that no part of its net earnings inures to the benefit of any private shareholder or individual. To meet the first requirement, there must be an established membership of individuals, personal contacts and fellowship. A commingling of the members must play a material part in the life of the organization. In addition, the ruling states that a club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, etc. may not be considered as being organized and operated exclusively for pleasure, recreation, or social purposes.

Rev. Rul. 55-716 1955-2 C.B. 263 held that an organization formed to furnish television antenna service to its members upon payment of a stipulated membership fee and a monthly charge for maintenance of the antenna was not tax exempt under section 501(c)(7) of the Code. The ruling states that the term "club" as used in Code section 501(c)(7) contemplates the commingling of members, one with the other, in fellowship. According to the Ruling, personal contacts and fellowship must play a material part in the life of an organization in order for it to come within the meaning of the term "club". The organization was denied exemption under section 501(c)(7) because fellowship did not constitute a material part of the life of the organization, since the services do not afford an opportunity for personal contacts and fellowship among members receiving such services. In addition, the organization did not meet the requirements of any other code section.

Rev. Rul. 54-394, C.B. 1954-2, 131 held that an organization whose sole activity was to provide television reception in an area not readily adaptable to ordinary reception, for which it receives installation and service fees, was not entitled to exemption from Federal income tax under section 101(8) of the Code as a civic league operating exclusively for the promotion of social welfare. The organization's only activity was to provide television on a cooperative basis to its members, who contract and pay for such services. The organization was held to operate for the benefit of its members rather than for the promotion of the welfare of mankind. The organization did not qualify for tax exemption under section 101(8) because they were not operated exclusively for social welfare.



[REDACTED]  
[REDACTED]

Rev. Rul. 73-349, 1973-2 C.B. 179 held that an organization formed to purchase groceries for its membership at the lowest possible prices on a cooperative basis was not exempt under section 501(c)(4) of the Code as a social welfare organization. The organization described in this ruling was a private cooperative enterprise operated for the economic benefit or convenience of the members. The organization was found to operate primarily for the private benefit of its members and any benefits to the community were not sufficient to meet the requirement of the regulations that the organization be operated primarily for the common good and general welfare of the people of the community.

Your organization contends that you are entitled to exemption under section 501(c)(7) of the Code because the activities which you conduct are social in nature. In addition, you believe that the activities of your organization include the "commingling of members" at informal discussions.

During a phone conversation with [REDACTED], Revenue Agent, on [REDACTED], you inquired about classification under section 501(c)(4) of the Code. You indicated that your organization could qualify for exemption under section 501(c)(4) of the Code because you were promoting social welfare.

Based on the facts presented above, we hold that your organization does not meet the requirements for tax exemption under sections 501(c)(7) or 501(c)(4) of the Code.

With regard to your request for tax exemption under section 501(c)(7) of the Code, your organization does not qualify because it is similar to the organizations described in the court cases, Chattanooga Automobile Club v. Commissioner, Warren Automobile Club, Inc. v. Commissioner and Keystone Automobile Club v. Commissioner. Like the organizations involved in these cases, the activities of your organization do not include the commingling of members, which is a requirement to be considered a social club under section 501(c)(7). Informal discussions at your mandatory membership meetings do not constitute he commingling of members.

Furthermore, your organization exhibits similar characteristics to the organizations described in Revenue Rulings 66-360, 70-32, 69-635, 58-589, 55-716, and 54-394. Like the organizations described in each of these rulings, the commingling of members does not play a material part in the life of your organization. In addition, you are primarily operated to perform services for your members.



[REDACTED]

With regard to your verbal request for tax exemption under section 501(c)(4) of the Code, you do not qualify because you are similar to the organizations described in the court case, Chattanooga Automobile Club v. Commissioner, Warren Automobile Club, Inc. v. Commissioner and Rev. Rul. 66-360. Like the organizations described therein, you are not exempt under section 501(c)(4) as a civic league because you are not operated exclusively to promote social welfare.

Furthermore, your organization is similar to the organizations described in Rev. Rul.'s 54-394 and 73-349. Like the organizations described in each of these rulings, you are not operated exclusively to promote social welfare. Rather, you are operated for the economic benefit and convenience of your members.

Accordingly, we conclude that you do not qualify for exemption under section 501(c)(7) or section 501(c)(4) of the Code.



Department of the Treasury-Internal Revenue Service  
Consent to Proposed Adverse Action  
(All references are to the Internal Revenue Code)Prepare In  
Duplicate

Case Number

Date of Latest Determination Letter

Employer Identification Number

Date of Proposed Adverse Action Letter

Name and Address of Organization

JUN 17 1999

I consent to the proposed adverse action relative to the above organization as shown by the box(es) checked below. I understand that if Section 7428, Declaratory Judgments Relating to Status and Classification of Organizations under Section 501(c)(3), etc. applies, I have the right to protest the proposed adverse action.

## NATURE OF ADVERSE ACTION

- ☒ Denial of exemption
- ☐ Revocation of exemption, effective
- ☐ Modification of exempt status from section 501(c)( ) to 501(c)( ), effective
- ☐ Classification as a private foundation (section 509(a)), effective
- ☐ Classification as a non-operating foundation (section 4942(j)(3)), effective
- ☐ Classification as an organization described in section 509(a)( ), effective
- ☐ Classification as an organization described in section 170(b)(1)(A)( ), effective

If you agree to the adverse action shown above, please sign and return this consent. You should keep a copy for your records.

If you sign this consent before you have exhausted your administrative appeal rights, you may lose your rights to a declaratory judgment under section 7428.

(Signature instructions are on the back of this form.)

Name of Organization

Signature and Title

Date

Signature and Title

Date